

# The City of Edinburgh Council

10.00am, Thursday 12 February 2015

## Housing Revenue Account Budget 2015/16 – referral report from the Finance and Resources Committee

<b>Item number</b>	4.2(e)
<b>Report number</b>	
<b>Wards</b>	All

### Executive summary

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The Finance and Resources Committee on 3 February 2015 considered a report which proposed a Housing Revenue Account (HRA) budget for 2015/16 which was based on a rent increase of inflation set at 2 per cent, in line with the current rent strategy; that delivered investment priorities as developed in partnership with tenants; and that managed risk in relation to welfare reform and its impact on rent collection and arrears. The report has been referred to the City of Edinburgh Council for decision on rent levels for 2015/16 as part of the Council's overall budget at the Council budget meeting on 12 February 2015.

### Links

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<b>Coalition pledges</b>	See attached report
<b>Council outcomes</b>	See attached report
<b>Single Outcome Agreement</b>	See attached report
<b>Appendices</b>	See attached report

# Terms of Referral

## Housing Revenue Account Budget 2015/16

### Terms of referral

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- 1.1 The Finance and Resources Committee on 3 February 2015 considered a report which proposed a Housing Revenue Account (HRA) budget for 2015/16 which was based on a rent increase of inflation set at 2 per cent, in line with the current rent strategy; that delivered investment priorities as developed in partnership with tenants; and that managed risk in relation to welfare reform and its impact on rent collection and arrears.
- 1.2 For 2015/16, the HRA budget was based on the HRA Business Plan (Business Plan). This was a 30 year financial model which set out annual revenue income and expenditure and how the HRA would contribute to the delivery the City Housing Strategy outcomes.
- 1.3 The Finance and Resources Committee agreed:
  - 1) To note the progress in delivering new Council homes and in meeting the Scottish Housing Quality Standard and high levels of tenant satisfaction.
  - 2) To note the potential risks to the Housing Revenue Account (HRA) and how these were being managed.
  - 3) To refer the report to the City of Edinburgh Council Budget Meeting on 12 February 2015 for approval of the rent levels for 2015/16.

### For Decision/Action

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- 2.1 The Finance and Resources Committee has referred the report to The City of Edinburgh Council for approval of the rent levels for 2015/16 as part of the Council's overall budget setting at its meeting on 12 February 2015.

## Background reading / external references

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[Housing Revenue Account Budget 2015/16](#)

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### Links

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<b>Coalition pledges</b>	See attached report
<b>Council outcomes</b>	See attached report
<b>Single Outcome Agreement</b>	See attached report
<b>Appendices</b>	See attached report

# Finance and Resources Committee

10:00am, Tuesday, 3 February 2015

## Housing Revenue Account Budget 2015/16

Item number 7.6  
Report number  
Executive/routine  
Wards

### Executive summary

In 2007, following consultation with tenants, a rent strategy was adopted of annual rent increases of inflation plus 2.7% until 2015 and by inflation only thereafter.

This report proposes a Housing Revenue Account (HRA) budget for 2015/16 which:

- a) Is based on a rent increase of inflation, in line with the current rent strategy.
- b) Delivers investment priorities as developed in partnership with tenants.
- c) Manages risk in relation to welfare reform and its impact on rent collection and arrears; as well as the risk of increasing management costs associated with ensuring compliance with the Scottish Government Guidance on managing local authority HRAs.

At its meeting on 11 November 2014, Health, Social Care and Housing Committee noted progress on delivering new Council homes, meeting the Scottish Housing Quality Standard and achieving high levels of tenant satisfaction. It agreed investment priorities for the next five years and noted options for a future rent strategy. Committee also agreed that the decision on rent levels for 2015/16 should be determined as part of the Council's overall budget at the meeting of City of Edinburgh Council on 12 February 2015.

### Links

Coalition pledges [P30](#) [P8](#)  
Council outcomes [C10](#) [C16](#) [C25](#)  
Single Outcome Agreement [SO2](#) [SO4](#)

## Housing Revenue Account Budget 2015/16 and Rent Options 2015-2020

### Recommendations

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It is recommended that Finance and Resources Committee:

- 1.1 Notes the progress in delivering new Council homes, meeting the Scottish Housing Quality Standard and high levels of tenant satisfaction.
- 1.2 Notes the potential risks to the Housing Revenue Account (HRA) and how these are being managed.
- 1.3 Refers the report to the City of Edinburgh Council Budget Meeting on 12 February 2015 for approval.

### Background

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- 2.1 The HRA Budget for 2015/16 is based on the HRA Business Plan (Business Plan). This is a 30 year financial model which sets out planned annual revenue income and expenditure. It sets out how the HRA will contribute to delivering the City Housing Strategy outcomes:
  - People live in a home they can afford.
  - People live in a warm, safe and accessible home in a well-managed neighbourhood.
  - People can move home if they need to.
- 2.2 The Business Plan sets out projected levels of capital investment required to ensure that Council homes and surrounding neighbourhoods are well maintained and meet modern standards. It also sets out how much will be invested in building new affordable homes to meet the city's housing needs for more affordable housing.
- 2.3 In 2007, following consultation with tenants, a rent strategy was adopted of increasing rents annually by inflation plus 2.7% until 2014/15 with rents rising by inflation thereafter. This rent strategy allowed the Council to fund the investment required to meet the Scottish Housing Quality Standard (SHQS) and deliver new affordable homes.
- 2.4 Over the last 18 months, the Housing Service has been consulting tenants through the 'Your Rent, Your Priorities' consultation. The purpose of the consultation was to identify investment priorities and establish tenants' views on rent levels.

- 2.5 At its meeting on 11 November 2014, Health, Social Care and Housing Committee noted this consultation and progress on delivering new Council homes, meeting the Scottish Housing Quality Standard and achieving high levels of tenant satisfaction. Committee agreed investment priorities for the next five years and noted the options for a future rent strategy.
- 2.6 Committee also agreed that the decision on rent levels should be determined as part of the Council's overall budget at the meeting of the City of Edinburgh Council on 12 February 2015.

## Main report

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- 3.1 The purpose of this report is to set out the proposed HRA Budget for 2015/16, which is attached at Appendix 1. The budget is presented to Council annually and is based on the 30 year HRA Business Plan.
- 3.2 The HRA Business Plan is based on a set of assumptions which are reviewed every six months to ensure forecasting is up to date. The main assumptions can be found at Appendix 2a. These assumptions have been further reviewed in light of the debate at the Health, Social Care and Housing Committee meeting of 11 November 2014.
- 3.3 The proposed HRA budget for 2015/16 assumes a rent increase of inflation set at 2%. Inflation is based on the Bank of England's target inflation rate and is in line with the inflation assumptions held within the Council's Long Term Financial Plan.
- 3.4 The Business Plan and the 2015/16 Budget are based on a draft 30 year capital investment programme, an outline of which can be found at Appendix 3.

### **Achievements**

- 3.5 Effective management of the HRA has ensured that the Council has been able to make significant progress in meeting housing objectives. The Housing Service is:
  - One of the top three Scottish local authorities for tenant satisfaction in relation to the housing service (90% compared to average of 81%), quality of home (89% compared to average of 81%) and neighbourhood (89% compared to average of 79%).
  - Starting construction of over 700 high quality new homes in the Pennywell and Muirhouse area as part of the 21st Century Homes initiative – one of the largest regeneration schemes in the country.
  - On track to comply with the key elements of the SHQS in 2015.
  - Reducing borrowing costs through effective treasury management. This has meant that £213 million has been invested over the last five years, while borrowing has only increased by £57 million.
  - As a result of investing in improving existing homes, the number of repairs required to homes is reducing.

## **Five Year Investment Priorities**

3.6 On 11 November 2014, following consultation with tenants through 'Your Rent, Your Priorities', Health, Social Care and Housing Committee agreed investment priorities for the next five years. The investment priorities are:

- Reduce household energy costs.
- New affordable homes.
- Provide a quality repairs service.
- Invest in neighbourhoods.

3.7 In addition to meeting these priorities, there are a number of statutory requirements that the investment programme needs to address. These include:

- Ensuring Council homes meet the SHQS by 2015 (and continue to meet that standard thereafter).
- Ensuring Council homes meet the Energy Efficiency Standard for Social Housing (EESH) by 2020.
- Health and Safety obligations.

## **Investing in Existing Homes**

3.8 This approach reflects the priority given to maintaining quality services for existing tenants first and the provision of new homes once these priorities are achieved.

3.9 Significant progress has been made in further improving the quality and condition of Council homes. By 2015 most homes will comply fully with the SHQS, albeit 3,000 homes will lack a secure door entry system due mainly to the challenges of getting agreement from other owners in the block where the Council is not in the majority.

3.10 These investment priorities have informed the preparation of the capital investment programme. The five year HRA Capital Investment Programme is set out in Appendix 4. Key elements of this programme include:

- £35 million to provide 5,000 tenants with new kitchens and bathrooms.
- £3 million to fit secure door entry systems in 1,240 homes in 240 blocks.
- £15.3 million to install new heating systems in 5,100 homes.
- £6 million to insulate 800 'hard to treat' homes.
- £3.4 million to provide 1,200 tenants with replacement, triple glazed windows.
- £7.5 million to adapt 2,500 homes to ensure that tenants can remain at home.
- £12.5 million to improve neighbourhoods across the city.

- 3.11 In order to meet EESSH by 2020, all Council homes must have efficient heating systems and be adequately insulated. The capital investment programme includes resources to ensure all properties in multi-storey blocks receive, at a minimum, modern, smart, electric heating systems. Heating options are currently being considered, including the feasibility of installing district heating systems in some of these blocks where there are neighbouring buildings which could also participate in district heating schemes. In addition, a smart electric heating system is being piloted in two blocks in the city. An evaluation of this pilot along with a review of options for appropriate use of district heating systems will inform the future strategy for multi-storeys.
- 3.12 Investment in energy efficiency works will be supplemented by bringing in as much grant as possible through schemes such as, Home Energy Efficiency Programmes for Scotland and the Energy Company Obligation. This funding can be used to support owners to contribute to works in mixed tenure blocks.

### **Investing in New Supply**

- 3.13 Edinburgh needs an additional 16,000 affordable homes over the next 10 years. New affordable homes are delivered through a number of funding mechanisms, with new Council homes delivered through the 21<sup>st</sup> Century Homes programme.
- 3.14 New Council homes have been completed in Gracemount, Craigmillar and Pilton. The regeneration of Gracemount being recognised through winning a considerable number of national awards. New homes are under construction in Pennywell, in one of the country's largest regeneration projects and commitments have been made to build homes in Leith (Fort) and North Sighthill.
- 3.15 On 11 November 2014, Health, Social Care and Housing Committee agreed the business case for developing an additional 400 affordable homes through the 21<sup>st</sup> Century Homes Programme. While making an overall positive contribution to the HRA revenue budget over time, this will require additional capital investment of around £46 million and has been included in the HRA Business Plan assumptions. Additional grant would be sought from the Scottish Government to support the delivery of social rented homes and developer contributions would reduce the HRA contribution further.

### **HRA Value for Money Strategy**

- 3.16 In the most recent tenant survey 94% of tenants said they thought the housing service was value for money or did not express a view.
- 3.17 Benchmarking shows that customer satisfaction with the housing service, the quality of tenants' homes and the quality of their local neighbourhoods is high compared to other local authority landlords. Housing management costs are comparatively low compared to other landlords and the cost of the repairs to the HRA is reducing as a result of improved quality through capital investment. Some overheads are above average compared to other landlords, in particular IT and premises costs and the unit cost of repairs.

- 3.18 In the last twelve months new housing asset management and repairs contracts have been procured, which will allow the Housing Service to deliver better value in property maintenance and improvement. The HRA disposal and acquisition strategy, agreed by the Health, Social Care and Housing Committee in June 2014, will allow the Housing Service to sell vacant homes that are costly to maintain and manage with the proceeds being used to build new modern cheap to heat homes and consolidate mixed tenure repairs.
- 3.19 The intention is to build on this approach to value for money and to ensure compliance with the Scottish Social Housing Charter which requires landlords to work with tenants to evidence value for money. The Housing Service will work through the tenants Panel to develop a value for money strategy in 2015 to ensure that tenants get the best possible value for money for the rent they pay. The key elements of this strategy will be to:
- Maintain and improve customer satisfaction with services.
  - Modernise access to services for tenants by making greater use of technology.
  - Support low income households reduce their household costs.
  - Ensure revenue and capital costs are compare favourably with other similar landlords.

### **Risks to the HRA Business Plan**

- 3.20 The HRA Business Plan faces a number of considerable risks and challenges the scale of which are greater than at any time since the HRA Business Plan approach was introduced in 2006.

#### Welfare Reform – Universal Credit and Rental Income

- 3.21 The introduction of under-occupation placed significant pressure on the management of rent collection in 2013/14. Like almost all local authority landlords the Housing Service experienced a significant increase in rent arrears during this period. Another major cause of the increase in rents arrears is the suspension of housing benefit payments as a measure to reduce the risk of fraud and over-payment.
- 3.22 While rent arrears appear to have stabilised in 2014/15, rent collection presents significant challenges and is still fragile. Uncertainty around future income and the impact of welfare reform continues to present significant risks. The introduction of Universal Credit is projected to have a significant impact on rental income as it is proposed that housing costs (currently met through Housing Benefit) will be paid directly to tenants, rather than directly to the Council's housing service, as is currently the case. Universal Credit will begin to be phased in from March 2015.
- 3.23 The Business Plan now assumes that a minimum of £20 million is held in reserve as a contingency to manage the impact of welfare reform. This would allow the HRA to manage a short term 50% loss of Housing Benefit income,

arising from the introduction of Universal Credit and direct payment of benefit to tenants.

#### Welfare Reform - Temporary Accommodation Rental Income

- 3.24 The introduction of the Benefit Cap was anticipated to have a significant impact on rental income from temporary accommodation. Projected rental income from temporary accommodation was, therefore, reduced for 2014/15 to manage this. There were delays in the UK Government's introduction of the Benefit Cap and the impact has been less than initially anticipated in 2014/15. However, this remains a significant risk for 2015/16, therefore rental income from temporary accommodation is projected to reduce from £8.3 million in 2014/15 to £5 million in 2015/16.

#### Managing Rent Arrears

- 3.25 Over 95% of HRA income is derived from rental income, therefore effective management of rent collection is critical. Despite the growth in arrears in 2013/14, rent collection performance was 99.1% of rental income due compared to a national average of 98.9%.
- 3.26 At any one time up to 2,000 tenants have their Housing Benefit payments delayed or suspended. It is difficult to estimate the extent of arrears arising from disrupted payments of legitimate housing allowances, but it is significant. In order to minimise the risk to the HRA arising from delayed and suspended benefit claims, the HRA currently provides additional resources to support the administration of Housing Benefit for Council tenants.
- 3.27 In addition, a specialist welfare reform team was established in the Housing Service to provide advice to tenants who were particularly affected by welfare reform. As a result of this and targeted work by local rents teams in the neighbourhoods, only 130 of the 3,300 tenants who were affected by under-occupation regulations have not engaged with services.
- 3.28 As part of managing the risk associated with rent arrears, the HRA budget contains provision for bad debt. This is an amount that is set aside within the budget to deal with debt that is likely to be written off. In 2013/14, rent arrears peaked and as such, the bad debt provision was increased by £1.7 million. As a result of the management of rent arrears, a rent payment advertising campaign and investment in the welfare reform team, the position has stabilised throughout 2014/15. This means that the increase in bad debt provision can be reduced to £0.5 million for 2015/16.

#### Scottish Government Guidance on Local Authority Operation of HRAs

- 3.29 In 2014, the Scottish Government published revised Guidance on the operation of local authority HRAs. In light of this, a review of the operation of the HRA will be carried out with tenants. The scope of the review has been agreed with ETF and tenants will be involved through the establishment of a Tenant Consultative Board.

- 3.30 As part of this work, the apportionment of staffing costs between the HRA and the General Fund will be reviewed to ensure they are appropriate. In addition, the Housing Service buys a number of services from other parts of the Council, such as community safety, environmental maintenance and public health. These costs are being reviewed as part of this work, to ensure appropriate apportionment of costs between the HRA and General Fund.
- 3.31 A baseline for allocating costs between HRA and General Fund has been established. This is reflected in the current budget proposals and will be kept under review throughout the coming year.
- 3.32 The key feature of the HRA Guidance is that the HRA should operate in the interests of current and future tenants. This covers, not only HRA capital and revenue expenditure, but also the use of reserves. The HRA reserve is held within the Repairs and Renewal (R&R) Fund, which was historically a combination of General Fund and HRA reserves. However, since 2013/14 when the Council wide element was transferred out of the R&R Fund and into an earmarked part of the General Fund, the R&R Fund has been exclusively an HRA reserve.
- 3.33 The R&R Fund is now predominantly earmarked for supporting development costs associated with 21<sup>st</sup> Century Homes. It also serves as a contingency to manage the risk of income loss arising from welfare reform. This approach is in line with the Scottish Government Guidance and the Council will continue to manage HRA reserves in the best interest of current and future tenants.

### **Funding Investment Priorities**

- 3.34 2014/15 is the final year of annual increases of inflation plus 2.7% under the current rent strategy. This strategy has enabled the Council to provide a housing service with some of the highest levels of tenants satisfaction, ensured compliance with SHQS and has delivered the first new Council homes for a generation.
- 3.35 Three options for five year rent strategies were presented to Health, Social Care and Housing Committee on 11 November 2014. The assumption in the HRA Business Plan for inflation is 2%. The options were:
- Option1 - Inflation
  - Option 2 - Inflation +1%
  - Option 3 - Inflation +2.7%
- 3.36 Following the debate at the Committee meeting, assumptions have been reviewed and the revised impact of the rent options on the business plan can be found at Appendix 2b.
- 3.37 Each option includes three core assumptions:
- Investment requirements of existing homes are met (including SHQS, EESSH, Health and Safety)

- A minimum of £20 million in reserve to manage the impact of welfare reform.
  - The construction of 400 additional Council homes over the period 2017/18-2019/20.
- 3.38 Management costs reflect an inflation assumption of 1% in line with pay awards and additional costs of rent collection to support tenants pay their rent.

### **Affordability**

- 3.39 Following the Health, Social Care and Housing Committee meeting in November 2014, some further analysis and testing of affordability was carried out using hypothetical cases and real life case studies. This analysis took account of recently announced tax and benefit changes to provide a more accurate assessment of the impact of rent strategy options on household budgets. The findings can be found at Appendix 4.
- 3.40 It is proposed that a comparative study on the impact of rent levels on tenant household budgets will be commissioned in 2015/16 to inform future rent levels.
- 3.41 Approximately 16,100 (84%) or five out of six Council tenants are eligible for Housing Benefit, therefore any rent increase would not directly affect their household budget. The level of Housing Benefit is not determined by the rent level, but by the household income.
- 3.42 Approximately 3,100 (16%) or one out of six tenants is not in receipt of any level of housing benefit and would be required to meet the cost of the rent increase. Based on inflation at 2%, tenants would see increases in their rent charge of between £1.40 and £2.29 per week under rent option one, between £2.10 and £3.43 for option two, and between £3.30 and £5.37 under option three (depending on house size).

### **Business Plan Revisions**

- 3.43 Following the debate on the 'Council Housing Business Plan – Investment Strategy and Rent Options 2015-2020' report which was considered by Health, Social Care and Housing Committee on 11 November 2014, some revisions have been made to the assumptions underlying the Business Plan.
- Additional, unbudgeted income from developer contributions and Scottish Government grant, combined with some slippage in the capital investment programme has resulted in lower than anticipated borrowing in 2014/15. The programme slippage will have no impact on the Council's ability to meet SHQS by 2015 and programmes have been re-profiled for the subsequent four years.
  - This re-profiling of the capital programme and effective treasury management means that loan charges for 2015/16 are £1.1 million lower than anticipated in the November report to Health, Social Care and Housing Committee.

- In addition, the reduction in the number of repairs is greater than originally anticipated and means that the repairs budget assumptions have been reduced over the next five years to reflect this.

### Impact of Rent Strategy on Budget 2015/16

- 3.44 The draft budget presented in Appendix 1 assumes rent increases at inflation over the next five years. The impact of adopting an above inflation increase is to raise the level of income, making more resource available for capital investment, contingency or debt reduction. The table below shows the impact of each option:

	<b>Option 1 (Inflation)</b>	<b>Option 2 (Inflation +1%)</b>	<b>Option 3 (Inflation +2.7%)</b>
<b>Net Income</b>	£92.435m	£93.334m	£94.862m
<b>Revenue Investment</b>	£12.548m	£13.447m	£14.975m

- 3.45 Irrespective of which rent strategy option is taken forward, the Council is required to prepare a balanced HRA Budget each year.

### Measures of success

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- 4.1 Council homes meet the SHQS and are maintained at a level which exceeds SHQS.
- 4.2 Council homes meet the EESSH by 2020.
- 4.3 Tenant satisfaction with the housing service, home and neighbourhood continues to be above the average for Scottish local authorities.
- 4.4 A minimum of an additional 400 affordable homes are delivered in the next five years of the Business Plan.
- 4.5 High levels of customer satisfaction with the housing service are maintained.

### Financial impact

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- 5.1 The HRA business planning process ensures the HRA is in a position to deliver investment requirements and manage risk. Delivering the priorities identified in this report, including an additional 400 affordable homes through expanding the 21<sup>st</sup> Century Homes programme, will require investment of approximately £270 million over the next five years.
- 5.2 An inflationary rent increase allows key priorities outlined in this report to be delivered whilst managing risk and maintaining a balanced position on the HRA.

### Risk, policy, compliance and governance impact

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- 6.1 Failure to establish a robust Business Plan may result in reduced investment in existing Council homes and services, which would have a negative impact on performance and tenant satisfaction levels.

- 6.2 Reduced levels of investment would also impact the Council's ability to meet statutory minimum standards for existing homes and to develop new affordable homes through the 21<sup>st</sup> Century Homes programme.
- 6.3 The rent strategy is reviewed annually so it continues to ensure affordability for tenants and sustainability for the HRA.

## **Equalities impact**

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- 7.1 The proposals in the report will have a positive impact on Council tenants.
- 7.2 Investing in improving the condition of existing homes will increase energy efficiency.
- 7.3 Provision is made within the investment programme for adapting Council homes to meet the needs of older and disabled tenants.
- 7.4 The 21<sup>st</sup> Century Homes programme will deliver nearly 400 new accessible homes, 10% of which will be built to wheelchair accessible standards.
- 7.5 Changes in tax and benefit rules will be the main factors that affect household income in 2015/16. The choice of rent strategy has minimal impact on household budgets but greater levels of investment would have a beneficial impact on quality of life through investment in existing and new homes. Those who have to spend the highest proportion of their income on rent (single people on minimum and living wage) would actually spend a lower proportion of their income on rent, following an inflationary rent increase.
- 7.6 The Council provides a comprehensive rent service which identifies tenants who are in arrears and provides advice and support to help them manage their arrears and sustain their tenancy. Statutory pre-court action requirements ensure that no eviction actions are carried out against any tenant until all other options have been exhausted.

## **Sustainability impact**

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- 8.1 Investing in improvements to Council homes will increase energy efficiency and lead to a reduction in carbon emissions.
- 8.2 21<sup>st</sup> Century Homes will deliver new affordable homes on brownfield sites, reducing pressure on Edinburgh's green belt. New homes are built to high standards in terms of energy efficiency and sustainability.

## **Consultation and engagement**

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- 9.1 An extensive Tenant Survey was carried out in 2013, the results of which are helping to inform future investment priorities and the shape of the housing service. Over 1,000 tenants were surveyed, with the results being reported to Health, Social Care and Housing Committee on 18 June 2013.
- 9.2 The 'Your Rent, Your Priorities' consultation for Council tenants ran between October 2013 and March 2014. The purpose of the consultation was to identify tenant priorities for investment and views on affordability to help inform the

Council's future rent policy from April 2015 onwards. This consultation, as well as ongoing liaison with Edinburgh Tenants Federation (ETF) has informed the five year investment priorities and draft budget for 2015/16.

- 9.3 Tenants Panel meetings were held across neighbourhoods in January 2015 to discuss the content of the draft Budget for 2015/16, including the outline capital investment programme.
- 9.4 ETF has advised that it will be campaigning for no rent increase to be applied in 2015/16. Those speaking in support of this campaign have observed that there is a great deal of uncertainty in terms of welfare reform and the economy and that a rent freeze would provide "some breathing space" for tenants.
- 9.5 ETF has stated that it believes the proposal to maintain a minimum balance of £20 million in reserve is excessive and has proposed that new house building should be slowed down to facilitate no rent increase in 2015/16. ETF disagrees with officers' analysis on affordability. It has also said that no rent increase should be introduced when the shape of the Council, and the housing service, is unclear.
- 9.6 ETF has provided briefing material to its members and supported them to lobby their local councillors and other politicians for no rent increase in 2015/16.
- 9.7 However, other tenants have also stated that they felt the Housing Service provided good value for money, which reflects the findings of the Tenants Survey from 2013. Some tenants stated that a small rent increase might be "a price worth paying" and that "maybe a few people could manage a small rent increase for the benefit of the many", referring to the fact that five out of six tenants would have an increase met by Housing Benefit.
- 9.8 Engagement with tenants will continue throughout 2015/16 to ensure tenants are involved in shaping the Value for Money strategy.

## **Background reading/external references**

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[Council Housing Business Plan – Investment Strategy and Rent Options 2015-2020, Report to Health, Social Care and Housing Committee, 11 November 2014](#)

[City Housing Strategy 2012-17 Annual Review – Health, Wellbeing and Housing Committee, 17 June 2013](#)

[21<sup>st</sup> Century Homes – Future Programme Update – Health, Social Care and Housing Committee, 11 November 2014](#)

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## Links

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<b>Coalition pledges</b>	<p>P30. Continue to maintain a sound financial position including long-term financial planning.</p> <p>P8. Make sure the city's people are well-housed, including encouraging developers to build residential communities, starting with brownfield sites.</p>
<b>Council outcomes</b>	<p>C10. Improved health and reduced inequalities.</p> <p>C16. Well-housed – people live in a good quality home that is affordable and meets their needs in a well-managed neighbourhood</p> <p>C25. The Council has efficient and effective services that deliver on objectives.</p>
<b>Single Outcome Agreement</b>	<p>SO2. Edinburgh's citizens experience improved health and wellbeing, with reduced inequalities in health.</p> <p>SO4. Edinburgh's communities are safer and have improved physical and social fabric.</p>
<b>Appendices</b>	<p>Appendix 1 – Draft HRA Budget 2015/16</p> <p>Appendix 2a – Business Planning Assumptions</p> <p>Appendix 2b – Impact of Rent Options on HRA Business Plan</p> <p>Appendix 3 – Outline Capital Investment Programme</p> <p>Appendix 4 - Affordability Of Rent Options</p>

## Appendix 1 - Housing Revenue Account Budget 2015/16 (Draft)

Narrative	2014/15 revised budget £m	Change £m	Change %	2015/16 proposed budget £m	Notes
<b>Income</b>					1
Net rent income	90.332	2.103	2%	92.435	2
Temporary accommodation	8.332	-3.240	-39%	5.092	3
Other income	4.042	0.040	1%	4.082	4
<b>Total income</b>	<b>102.706</b>	<b>-1.097</b>	<b>-1%</b>	<b>101.609</b>	
<b>Expenditure</b>					
Housing Management	22.247	1.262	6%	23.509	5
Repairs & maintenance	18.990	-0.572	-3%	18.418	6
Debt charges	38.700	1.524	4%	40.250	7
Environmental maintenance	2.505	0.412	16%	2.917	8
Temporary accommodation (direct costs)	6.641	0.092	1%	6.733	9
Bad debt provision (set aside)	1.700	-1.2	-71%	0.500	10
Revenue Investment	11.923	0.625	-22%	9.282	11
<b>Total expenditure</b>	<b>102.706</b>	<b>2.143</b>	<b>-1%</b>	<b>101.609</b>	
<b>Outturn</b>	<b>0.000</b>	<b>0.000</b>	<b>0%</b>	<b>0.000</b>	

### Notes:

1. 2015/16 budget figures are based on the 2015/16 HRA Business Plan. The 2014/15 figures are based on the revised HRA budget.

2. 'Net rental income' is the total rent that could be charged, minus written off former tenant arrears (0.75%) and rent loss due to empty homes (0.75%). It also takes account of the variation in housing stock numbers and rent increase of 2.0% for 2015/16.

3. This is income from Council homes that are used as managed or dispersed Temporary Accommodation and is unchanged from 2014/15. To manage risk and uncertainty in relation to welfare reform, in particular the impact of the Benefit Cap, income to temporary accommodation is projected to reduce.

4. This includes service charges to tenants, non-housing rents, Government grant income, recovered costs from owner occupiers. An inflationary increase of 2.5% has been applied to all 'Other income' for 2015/16, apart from land rent and core furnished tenancies, which has not increased. No increase has been applied to land rent and core furnished tenancies which is why the net increase amounts to only 1%.

5. 'Housing Management' includes employee costs, central support costs and recharges, premises and other expenditure. Initial reapportionment of employee costs to comply with HRA guidance has resulted in a net increase of management costs charged to the HRA. However, benchmarking shows that the Council's Housing Management costs are lower than average, compared to other similar landlords across the UK. The Council is in the upper quartile

(lowest cost) for antisocial behaviour, tenancy management and lower than average cost for lettings management. 1% pay award has been applied to employee costs, 2% to premises costs and Central Support Charges. The Council established a Welfare Reform Team to provide additional support to tenants affected by welfare reform. Initially this was funded through Transitional Funding from the Department of Work and Pensions. It was agreed that this service would continue, with funding from the HRA. In addition, the HRA funds a number of staff members in Corporate Governance to reduce delays in Housing Benefit processing for Council tenants.

6. As a result of investing in improving the quality of homes, the number of repairs required has reduced, therefore the repairs budget has been reduced by 3%. This covers responsive repairs, empty property repairs and sheltered housing repairs. This has been adjusted for projected stock loss from right to buy sales, additional new homes from the 21<sup>st</sup> Century Homes programme and an uplift of 2% on costs.

7. 'Debt charges' are capital financing costs (principal repayments, interest & expenses) for HRA debt for existing stock and the planned investment programme. The 2015/16 debt charges assume that no Capital Funded from Current Revenue (CFCR) has been used to repay debt at the end of 2014/15. Using CFRC instead of borrowing would reduce debt charges.

8. 'Environmental maintenance' comprises grounds maintenance costs, including empty properties, pest control, garden aid and temporary accommodation. These are services that the Housing Service purchases from other parts of the Council. In order to comply with the HRA guidance, these costs are being reviewed to ensure appropriate apportionment between the HRA and General Fund. This has resulted in an increase assumption for environmental maintenance. For example, the cost of pest control has increased, as the full costs of the service have not been recovered from the general fund for a number of years. 78 additional temporary accommodation properties have been added to the grounds maintenance contract in 2014/15, this has been reflected in the budget for 2015/16.

9. This is the cost of temporary accommodation to the HRA excluding capital financing and repairs costs, which are included elsewhere in the table. An inflationary increase of 1.0% has been applied for 2015/16 to cover a pay award.

10. The increase in bad debt provision has been reduced to £0.5m for 2015/16. Rent arrears peaked in 2013/14. To manage this, the amount set aside to manage bad debt was increased by £1.7m for 2014/15. The rent arrears position stabilised throughout 2014/15 as a result of additional staff resources and the rent payment advertising campaign. This means that the increase in set aside for bad debt can now be reduced to £0.5m. Any of the provision which is not required will be used as 'revenue investment'. This position will be kept under review and is likely to increase again when Universal Credit is introduced.

11. 'Revenue Investment' is income in excess of expenditure that is used within the same year to fund new capital investment, repay old HRA debt, maintain a working balance and support 21<sup>st</sup> Century Homes funding in this or future years.

## Appendix 2a – Business Planning - High Level Assumptions

Input	2015/16	Note
Housing Asset Management Investment	£27.36m	Includes SHQS and EESSH related works.
Stock modernisation & Regeneration Investment	£12.745m	Includes regeneration, neighbourhood investment, community care and capital salaries.
21 <sup>st</sup> Century Homes Net Funding Requirement	£6.2m	Net of Scottish Government subsidy and developer contributions.
Total HRA Capital Expenditure	£39.105m	
Inflation	2%	Based on Bank of England target inflation rate for 2015/16, November 2014 RPI and Council's long term financial plan.
Rent Increase	Inflation	Business Plan assumes inflationary increase.
Right to Buy Income	£1.692m	
Rent lost on empty homes	0.75%	
Debt level (projected for March 2015)	£383m	£369m at 31 March 2014
Interest on debt	5.1%	Based on estimated interest rate at December 2014

## Appendix 2b – Impact of Rent Options on HRA Business Plan

This Appendix sets out the impact of different rent options on the HRA Business Plan over the next 10 years, following a review of assumptions to take account of the most recent information.

Table 1: Three rent strategy options

The table below sets out three rent strategy options that were presented to Health, Social Care and Housing Committee on 11 November 2014.

<b>Rent Strategy 2015/16-2019/20</b>	<b>Annual Increase*</b>
Annual increase - inflation	2%
Annual increase – inflation + 1%	3%
Annual increase – inflation + 2.7%	4.7%

*\*based on assumption of 2% rate of inflation (Office for Budget Responsibility target rate of inflation)*

The Council has nine rent charges for different house types/sizes. The impact of each rent strategy on each house type is set out below:

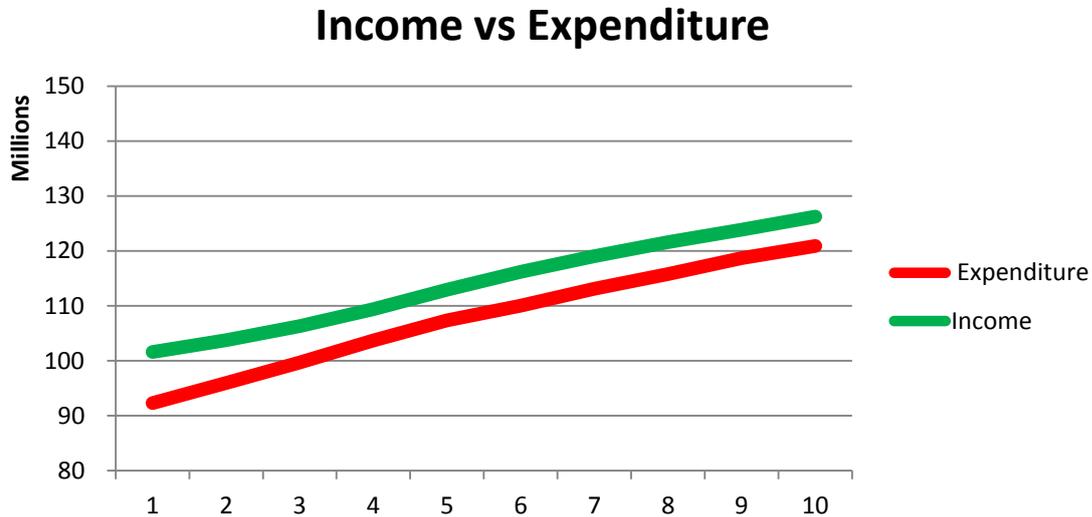
Table 2: Impact of Rent Strategy Options

	<b>2014/15 Weekly Rent</b>	<b>2015/16 Weekly Rent (2.0% increase)</b>	<b>2015/16 Weekly Rent (3.0% increase)</b>	<b>2015/16 Weekly Rent (4.7% increase)</b>
Bedsit	£70.23	£71.63	£72.33	£73.53
1 bedroom flat	£78.26	£79.82	£80.61	£81.94
1 bedroom house	£82.26	£83.90	£84.72	£86.12
2 bedroom flat	£90.97	£92.79	£93.70	£95.24
2 bedroom house	£94.98	£96.87	£97.82	£99.44
3 bedroom flat	£103.68	£105.75	£106.79	£108.55
3 bedroom house	£107.69	£109.84	£110.92	£112.75
4+ bedroom flat	£110.36	£112.57	£113.67	£115.55
4+ bedroom house	£114.37	£116.66	£117.80	£119.74

## Impact of Rent Options on HRA Business Plan

### Option 1 – Annual Increase of Inflation

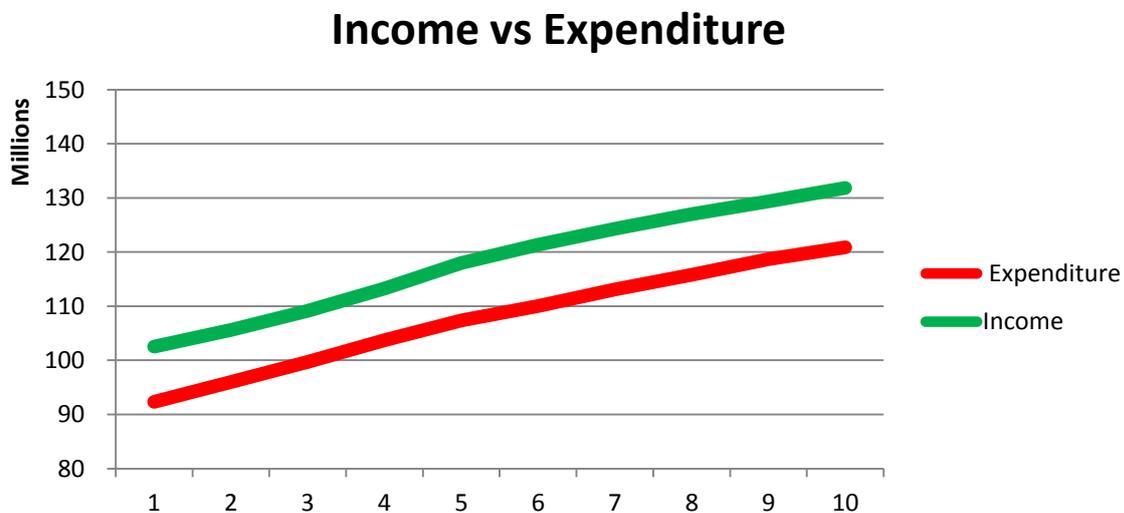
The chart below shows the impact of Option 1 on annual income and expenditure over the next 10 years of the Business Plan.



This option would allow the Council to meet investment requirements of existing homes, deliver the current 21<sup>st</sup> Century Homes programme and expand the programme to provide an additional 400 affordable homes. However, net income falls to £5 million in year nine of the Business Plan. This is deemed to be relatively high risk, as it would take a variation on income and expenditure of 5% to see the HRA fall into a deficit at year nine.

### Option 2 – Annual Increase of Inflation +1%

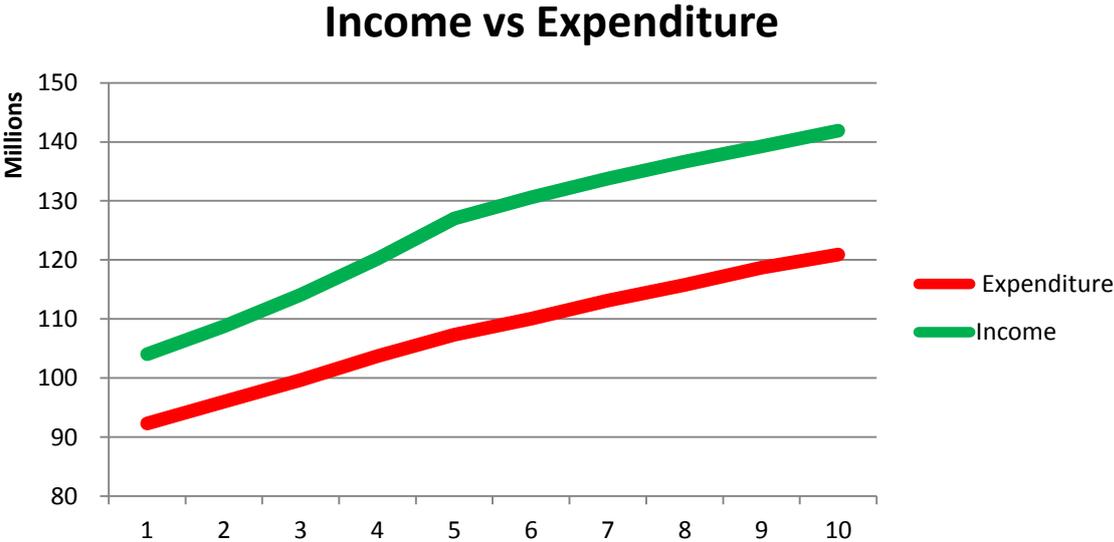
The chart below shows the impact of Option 2 on annual income and expenditure over the next 10 years of the Business Plan.



This option would allow the Council to meet investment requirements of existing homes, deliver the current 21<sup>st</sup> Century Homes programme and expand the programme to provide an additional 400 affordable homes. Net income falls to £9 million in year three of the Business Plan. This option is lower risk, as it would take a variation on income and expenditure of 9% to see the HRA fall into a deficit at year three.

Option 3 – Annual Increase of Inflation +2.7%

The chart below shows the impact of Option 3 on annual income and expenditure over the next 10 years of the Business Plan.



This option would mean the continuation of increases of inflation plus 2.7% for the next five years. This option would deliver current investment requirements, whilst ensuring net income remains above £11 million over the 30 year Business Plan period.

Options 2 and 3 provide scope to increase significantly the house building programme over a 10 year period. This would however, require significant investment in land acquisitions and resources to manage the programme.

## Appendix 3 – Draft HRA Capital Investment Programme

The 2015/16 Draft Budget and Business Plan are based on the assumptions set out in Appendix 2. Below is the outline draft Capital Investment Programme, which is based on the investment priorities agreed by Health, Social Care and Housing Committee on 11 November 2014. The funding strategy may be revised through the year as officers seek to make the best use of any existing and new resources and use the most appropriate funding to generate the best return to the HRA.

<b>Programme Heading</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>Total</b>
	<b>£million</b>	<b>£million</b>	<b>£million</b>	<b>£million</b>	<b>£million</b>	<b>£million</b>
<i>HRA Core Programme</i>						
Housing Investment	27.360	21.360	22.160	21.160	22.060	114.100
Neighbourhood Environmental Investment	2.500	2.500	2.500	2.500	2.500	12.500
Community Care	5.035	5.035	5.035	5.035	5.035	25.175
Regeneration	1.000	0.500	0.000	0.000	0.000	1.500
Capital and Council House Sales and Salaries	4.200	3.800	3.800	3.800	3.800	19.400
<b>Sub Total</b>	<b>40.105</b>	<b>33.195</b>	<b>33.495</b>	<b>32.495</b>	<b>33.395</b>	<b>172.685</b>
<i>21st Century Homes</i>						
21st Century Homes Investment	9.725	15.498	17.990	11.880	6.952	62.046
<b>Total</b>	<b>49.830</b>	<b>48.693</b>	<b>51.485</b>	<b>44.375</b>	<b>40.347</b>	<b>234.731</b>
<b>Funding Source</b>	<b>£million</b>	<b>£million</b>	<b>£million</b>	<b>£million</b>	<b>£million</b>	<b>£million</b>
<i>HRA Core Programme</i>						
Prudential Borrowing	36.798	30.399	31.874	30.874	31.774	161.719
Receipts from Council House Sales	1.692	1.175	0.000	0.000	0.000	2.867
Receipts from Other HRA Assets	0.000	0.000	0.000	0.000	0.000	0.000
Capital Grant	0.000	0.000	0.000	0.000	0.000	0.000
Owners Contributions	1.615	1.621	1.621	1.621	1.621	8.099
<b>Sub Total</b>	<b>39.105</b>	<b>32.695</b>	<b>33.495</b>	<b>32.495</b>	<b>33.395</b>	<b>171.185</b>
<i>21st Century Homes</i>						
CFCR and Reserves	6.242	13.629	11.973	7.696	0.000	39.540
Prudential Borrowing	0.000	0.000	0.000	3.231	6.762	9.993
Developers Contributions	1.005	1.133	1.279	0.954	0.190	4.561
Scottish Government Subsidy	2.477	0.736	4.738	0.000	0.000	7.951
<b>Sub Total</b>	<b>9.725</b>	<b>15.498</b>	<b>17.990</b>	<b>11.880</b>	<b>6.952</b>	<b>62.046</b>
<b>Total</b>	<b>49.830</b>	<b>48.693</b>	<b>51.485</b>	<b>44.375</b>	<b>40.347</b>	<b>234.731</b>

## Appendix 4 – Affordability of Rent Strategy Options

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### 1. Introduction

2. This appendix is designed to provide an insight into the impact of rent strategy options for a range of sample tenant scenarios.

### 3. Key Findings

- 3.1. Around 16,100 Council tenants (five out of six or 84%) are estimated to be entitled to Housing Benefit. Any rent increase will not directly affect their household budget. The level of Housing Benefit is not determined by the rent level, but by the household income.
- 3.2. Approximately 3,100 (one in six or 16%) tenants were not in receipt of any level of housing benefit. Based on a 52 week year, these tenants would see increases in their rent charge of between £1.40 and £2.29 under rent option one, between £2.10 and £3.43 for option two, and between £3.30 and £5.37 under option three (depending on house size).
- 3.3. Single adult working households, although rent would increase under the three rent options, would see their income increase at a faster rate. This is due to a combination of changes in tax thresholds and increase in the minimum and living wage. The impact of this is that the proportion of household income spent on rent would actually decrease under options one and two for a single person earning the living wage.
- 3.4. The private rented sector is significantly less affordable, particularly for single adult working households. The effect of Housing Benefit means the difference is less pronounced for working family households.
- 3.5. This study does not take into account the introduction of Universal Credit, and the effect it may have on tenants' income. Universal Credit for single, unemployed people will be rolled out in Edinburgh between February and April. Further roll out is not yet confirmed.

### 4. Methodology

- 4.1. The affordability of rent was analysed based on several example scenarios.
  - **Scenario 1: Family on minimum wage.** This example is for a family of four, with two children and two adults, one adult working 36 hours a week on the minimum wage. The other adult has no earned income. The family lives in a two bedroom flat.
  - **Scenario 2: Family on living wage.** This example is for a family of four, with two children and two adults, one adult working 36 hours a week on the living wage. The other adult has no earned income. The family lives in a two bedroom flat.

- **Scenario 3: Single person on minimum wage.** This example is for a single person working 36 hours a week on the minimum wage, living in a 1 bedroom flat.
- **Scenario 4: Single person on living wage.** This example is for a single person working 36 hours a week on the living wage, living in a 1 bedroom flat.

4.2. Several assumptions had to be made for these scenarios. The welfare system is complicated and wide ranging; and many factors affecting entitlement to various benefits had to be considered. Some of the main points are outlined below:

<b>Assumption</b>	<b>Notes</b>
Minimum wage	The minimum wage is increased annually in October. For the purposes of the study, the 2014 minimum wage of £6.31 was used for the financial year 2014/15, and the 2015 minimum wage of £6.50 was used for the financial year 2015/16.
Living wage	Living wage figures are updated annually in November by the Living Wage Foundation. For the purposes of the study, the 2014 living wage of £7.65 was used for the financial year 2014/15, and the 2015 living wage of £7.85 was used for the financial year 2015/16.
Family Scenarios Housing Costs	For the family scenarios the rent charge of a two bedroom Council flat was used, apportioned over 52 weeks to give a better indication of rent costs over the year (£90.97). For the private rented comparisons: Citylets average private rent for a two bedroom property in Q3 2014 (£186.69) was used.
Single Person Scenarios Housing Costs	For the single person scenarios the rent charge of a one bedroom Council flat was used, apportioned over 52 weeks to give a better indication of rent costs over the year (£78.25). For the private rented comparisons: Citylets average private rent for a one bedroom property in Q3 2014 (£139.15) was used.
Tax and National Insurance	Tax and national insurance was calculated manually and verified using an online tax calculator ( <a href="http://www.listentotaxman.com">www.listentotaxman.com</a> ). Changes in tax rates and thresholds between the financial years 2014/15 and 2015/16, in particular the increase in annual personal allowance to £10,600, were reflected in the increases of net incomes of each scenario in 2015/16.
Benefits income	Tax credit, child benefit and Housing Benefit entitlement was calculated manually for the 2014/15 financial year on current rates and thresholds. These were verified against independent benefits calculators. The same

	formulas were used for the 2015/16 financial year but updated with expected new rates and thresholds. <sup>1 2</sup>
Housing Benefit for Private Rented Sector	The Local Housing Allowance determines Housing Benefit for private tenants. The two bedroom rate was used for the family scenarios, and the shared rate used for the single person scenarios.

4.3. Net income and benefit entitlement was calculated for each example scenario for the 2014/15 tax year, and the figures verified with independent online benefits calculators. Income and benefit entitlement was then calculated again for 2014/15 financial year using the expected new tax and benefit rates and thresholds, announced as part of the Government's Autumn Statement on 3 December. Figures for the next financial year could not be independently verified, however use the same formulas for entitlement as the current financial year.

4.4. Total net rent as a proportion of net income was calculated. Net rent is taken as the rent charge minus the Housing Benefit award. Net income is total household income after tax and inclusive of tax and child credits and child benefits.

## 5. **Results**

5.1. In its report published August 2014, The Resolution Foundation stated that "There is some degree of consensus that more than 30 to 35% of either gross or net income spent on ongoing costs is a reasonable indicator of difficulty paying for housing, although some landlords report using thresholds of up to 40%."<sup>3</sup>

5.2. Table 1 shows the proportion of net income spent on net rent for each scenario and each proposed rent increase, and also shows levels in the private rented sector for 2014/15 as a comparison.

Table 1: Proportion of Net Income Spent on Net Rent: Comparison with Private Rented Sector (PRS)

Scenario	Current	Option 1 (Inflation only)	Option 2 (Inflation + 1%)	Option 3 (Inflation + 2.7%)	Citylets average PRS rent
Single adult minimum wage	35.3%	35.2%	35.6%	36.2%	62.8%
Single adult living wage	32.1%	31.7%	32.0%	32.6%	57.0%
Family Minimum wage	13.5%	13.9%	13.9%	13.9%	25.0%
Family Living Wage	15.1%	15.5%	15.5%	15.5%	26.2%

Net rent (rent charge minus housing benefit entitlement) as a percentage of net income (Income after tax and national insurance deductions and inclusive of benefits)

5.3. Table two shows the estimated financial impact of the different rent options.

<sup>1</sup> Policy Paper: Tax and tax credit rates and thresholds for 2015-16. HM Treasury. December 2014. [www.gov.uk/government/publications/tax-and-tax-credit-rates-and-thresholds-for-2015-16](http://www.gov.uk/government/publications/tax-and-tax-credit-rates-and-thresholds-for-2015-16).

<sup>2</sup> Guidance: proposed Benefit and Pension Rates 2015 to 2016. Department for Work and Pensions. December 2014. [www.gov.uk/government/publications/proposed-benefit-and-pension-rates-2015-to-2016](http://www.gov.uk/government/publications/proposed-benefit-and-pension-rates-2015-to-2016).

<sup>3</sup> *Housing pinched: Understanding which households spend the most on housing costs*. The Resolution Foundation. August 2014

Table 2: Increase in rent charge

Scenario	Current Rent	Option 1 Increase (Inflation only)	Option 2 Increase (Inflation + 1%)	Option 3 Increase (Inflation + 2.7%)
Single adult minimum wage	£78.26	£1.56	£2.35	£3.68
Single adult living wage	£78.26	£1.56	£2.35	£3.68
Family Minimum wage	£90.97	£2.82	£2.82	£2.82
Family Living Wage	£90.97	£2.88	£2.88	£2.88

- 5.4. The results indicate that Council rents for the family scenarios are currently affordable. A higher percentage of income is spent on rent for the family on a living wage, which is due to the reduction in tax credits and Housing Benefit.
- 5.5. The research found that, families with one earner on the living wage and living in a Council home currently spend around 15% of their net income on rent. Their gross household income, before benefits, is £14,695 per year. After benefits and taxes, it is estimated to be around £22,367 per year. With any potential rent increase, this family would spend 0.4% more of their net income on rent. As they have a Housing Benefit award, their net rent charge is determined by the Housing Benefit rates and even in the event of a rent freeze, this family would spend 0.4% more of their net income on rent.
- 5.6. When a family has a gross household income, before tax and benefits, of approximately £23,000 per year, they cease to be entitled to Housing Benefit. Such a household would expect to pay approximately 19.4% of their net income, after tax and benefits, on their Council rent. An inflationary increase would see that increase to 19.6%. Inflation plus 1% would be 19.8% of net income on their rent.
- 5.7. The single adult scenarios may be viewed as less affordable, however it should be borne in mind that single person households will not have the same outgoings as families. Table 2 demonstrates that rent option one (inflation only) would have a positive effect on rent affordability, and option two (inflation + 1%) would have no or little effect on affordability for these scenarios.
- 5.8. A single adult earning the minimum wage currently spends around 35.3% of their income on renting their Council home. This person's net income is increasing at a faster rate than inflation, due to changes in tax allowances and the up-rating of the minimum wage. This means that, with an inflationary rent increase, this person would actually spend marginally less of their net income (0.1%) on rent. If the rent increase was 1% above inflation, they would spend 0.2% more of their net income on rent.
- 5.9. A single adult on the living wage would see the proportion of income they spend on rent fall by 0.3% after an inflationary rent increase. With an inflation plus 1% increase, they would see no change in the proportion of income spent on rent.
- 5.10. When compared to the private rented sector (PRS) Council rents are more affordable, sometimes significantly so. A single adult on minimum wage would expect to spend about 35.3% of their income on rent if they are a Council tenant.

With the higher rents in the PRS this rises to 62.8% of that household's income. The effect of Housing Benefit entitlement for the family scenario reduces the difference.

Table 3: Percentage point change in net income as percentage of net rent

Scenario	Option 1 (Inflation only)	Option 2 (Inflation + 1%)	Option 3 (Inflation + 2.7%)
Minimum wage Family	0.5%	0.5%	0.5%
Living Wage Family	0.4%	0.4%	0.4%
Single adult minimum wage	-0.1%	0.2%	0.8%
Single adult living wage	-0.3%	0.0%	0.5%

Figures may not exactly match table 2 due to rounding

5.11. Table 2 demonstrates the percentage point change in income spent on rent for each of the scenarios. The impact for the family scenarios is the same for each scenario, as any increases in rent is accompanied by an increase in Housing Benefit. For the single adult scenarios, the proposed increases have much less of an effect, with option one being favourable for affordability and option two having little or no effect.

## 6. Conclusion

- 6.1. Based on the generally accepted principle that rent payments of around a third of income are affordable, Council rents are affordable to most households. Families on low incomes are supported through tax credits and benefits, ensuring rent levels are affordable.
- 6.2. Single person households are under most pressure, although due to tax threshold and benefit changes, a rent increase of inflation would actually result in a single person household earning the living wage having a slightly increased disposable income.